SUBCOMMITTEE NO. 2 Agenda

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PART 2 - ENERGY

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Oversight Issue

Energy Agency Reorganization and the Energy Action Plan

Panel Discussion: Staff has invited the California Public Utilities Commission, the California Energy Commission, and the California Power Authority to participate in the discussion of this issue.

Background: California's energy policies are overseen by at least five different entities: The California Public Utilities Commission (CPUC), the California Energy Commission (CEC), the California Power Authority, the Department of Water Resources, California Energy Resources Scheduling (CERS), and the Electricity Oversight Board. (In addition, at least one state/FERC-jurisdictional entity, the Independent System Operator (ISO), and two other agencies, the Department of Justice and the Electricity Oversight Board, have involvement in the state's energy system).

In the aftermath of the 2001-02 energy crisis, little emphasis has been placed on ensuring that the state's energy apparatus is more efficient, better organized, and more thoroughly prepared to prevent the recurrence of the crisis in the future. Moreover, utility rates are high, energy conservation has tapered off since the public's perception of the crisis has diminished, many energy power plants are still inefficient and high polluting, and state agencies like the Public Utilities Commission often seemed vexed as to its role as regulator or deregulator.

Last year, the LAO complied an extensive analysis on the need for energy reorganization and made a number of suggestions on how to accomplish this goal. This year, draft proposals have been put forward in the Assembly to reorganize energy functions as part of the budget process. It is unclear if those proposals will move forward.

Energy Action Plan: This past March, California's principal energy agencies issued a draft "Energy Action Plan."

The goal of the Energy Action Plan is to:

Ensure that adequate, reliable, and reasonably priced electrical power and natural gas supplies, including prudent reserves, are achieved and provided through policies, strategies, and actions that are cost-effective and environmentally sound for California's consumers and taxpayers.

The energy agencies intend to achieve this through six specific means:

- *Meet California's energy growth needs while optimizing energy conservation and resource efficiency and reducing per capita electricity demand.*
- *Ensure reliable, affordable, and high quality power supply for all who need it in all regions of the state by building sufficient new generation.*
- *Accelerate the state's goal for renewable resources generation to 2010.*
- *Upgrade and expand the electricity transmission and distribution infrastructure and reduce the time before needed facilities are brought on line.*
- *Promote customer and utility owned distributed generation.*
- *Ensure a reliable supply of reasonable priced natural gas.*

The plan stated that "These initiatives will send a signal to the market that California is a good place to do business and that investments in the more efficient use of energy and new electricity and natural gas infrastructure will be rewarded. Our approach recognizes that we currently have a hybrid energy market and that state policies can capture the best features of a vigorous, competitive wholesale energy market and renewed, positive regulation."

The draft "Energy Action Plan" is completed and will be subject to hearings in late April and early May by the three participating energy agencies.

The 2003-04 budget summary makes no explicit reference to the state's energy woes. In contrast, the 2002-03 budget summary contained a separate section devoted exclusively to "Achieving Energy Independence."

Staff Comments: In light of the fact that an energy agency reorganization may not be forthcoming, the Energy Action Plan becomes imperative to ensuring the 2001-02 energy crisis does not reoccur in the near future.

The CPUC, the CPA, and the CEC should be commended for this unprecedented endeavor in cooperation; however, it is imperative that the final Energy Action Plan contain specific goals and benchmarks, clearly defined departmental roles, and established timelines so that progress and accountability can be clearly measured by the Legislature.

Staff has asked the panel of departments contributing to this plan to present to the subcommittee on each agency's role in enacting the Energy Action Plan and the resulting future policy and budgetary implications to ensure the plan is enacted.

8665 California Consumer Power and Conservation Financing Authority

The responsibilities and powers of the CPA are detailed in Sections 3300 through 3384 of the Public Utilities Code. The code:

1. Authorizes the CPA to finance the following with revenue bonds:

   - The construction of generation facilities (Sections 3350 and 3351),

   - Loans for the purchase of equipment, improvements and appliances with energy efficiency or renewable energy characteristics (Sections 3365 through 3367.5).

2. Requires the CPA's operating budget be included in the annual Budget Act (Section 3345).

3. Requires the CPA to submit to the Budget Committee an annual report on its activities and expenditures (Section 3346). The report is due January 1.

4. Requires the CPA to report on its plan for financing resources investments when deemed appropriate by the Authority (Section 3369). An updated report, entitled ***Stabilizing California's Power Resources—Investing for Our Energy Security***, was submitted on January 17, 2003.

Table 1
California Consumer Power and Conservation Financing Authority
Expenditures by Program
(dollars in thousands)

	2001-02	2002-03	2003-04	Change Amount	Change Percent
Energy Acquisition	$2,606	$56,530	$226,685	170,155	300.9%
Planning and Policy Development	1,626	1,679	1,698	19	1.1%
Administration	698	1,028	1,068	40	3.7%
Distributed Administration	(698)	(1,028)	(1,068)	(40)	-3.7%
Totals	$4,232	$58,209	$228,383	$170,174	292.3%

Budget Proposal. The budget proposes a state operations budget of about $4.3 million (special funds), approximately the same as last year. Other major budget proposals include:

- Loaning $6.165 million from the Energy Resources Program Account (ERPA) for operational costs and a Renewable Resources Trust Fund (RRTF) loan repayment.

- Repaying a $3.3 million loan to the RRTF.

- Generating $1.15 million in origination fees revenue from a proposed $130 million in anticipated Revenue Bond Sales.

Background on the CPA's Activities. When created in 2001, the authority was financed with a $10 million General Fund loan. The loan was to have been repaid with the proceeds from the projects financed by the CPA. Last year, the Legislature, on a suggestion by the Legislative Analyst, switched the loan source from the General Fund to the Energy Commission's RRTF. In the budget year, the Authority is proposing to shift funding to ERPA.

Energy Settlement Funds. The Attorney General, with the assistance from several state agencies, renegotiated 22 long-term energy contracts, for a potential savings of over $5 billion. The Attorney General (AG) has sought cash and asset settlements from three companies worth $200 million. Apparently, under current law, once the AG settles, the settlement funds can be appropriated. Of this amount the AG has allocated about $90 million to CPA.

All settlement funds are passed through CPA to the CEC's Solar Schools program. The Solar Schools program provides rebates to public schools that purchase and install solar energy systems on their facilities. The CPA does not benefit from this revenue. In the current year, the CPA estimates receiving about $10.4 million in settlement funds to transfer to the CEC. In the budget year, the CPA budget anticipates receiving $8.65 million in settlement funds.

The AG also negotiated in a settlement with Williams Energy the possession of six gas turbine generators. The generators were allocated by the AG's office to the City and County of San Francisco and the Kings River Conservation District in the Central San Joaquin Valley. The Authority's role in the development of these projects is assistance with permitting and licensing.

Revenue Bond Sales. In the current year, the CPA has used its bond authority to finance $28 million for additional funding for the CEC's Energy Conservation Assistance Low-Interest Loan program. Since 1979, the program has made 646 loans for a combined $135 million to fund energy conservation improvements for schools, cities, counties, public/nonprofit hospitals, and public care institutions. The revenue bonds were backed by existing loans in the program and the creditworthiness of the loan program.

The Authority anticipates issuing $130 million in revenue bonds in the budget year. Of the $130 million, $100 million is anticipated for "Reliability Power Projects" and $30 million in Industrial Development Bonds. Reliability power projects refer to peaker facilities in key areas in the state in need of increased generation capacity. Industrial Development Bonds would be used to finance smaller electricity generation projects at industrial or manufacturing locations conducive to those projects.

Demand-Reserves Program. The Authority brokered and implemented the Demand-Reserves Program in July 2002. The program encourages businesses to agree to reduce power usage when supplies are low due to weather extremes, power plant outages, or transmission system bottlenecks, in exchange for compensation. The program anticipates providing an additional 200 MWs in electricity conservation during this summer and 500 MWs in the summer of 2004.

Investment Strategies. The CPA's strategies for 2003 will emphasize improving readiness to finance or own new power plants, improving progress and performance of the Demand-Reserve Program, increasing the "contribution of renewable energy resources, and continuing "investments in efficiency and distributed generation on public facilities."

Budget Requests

Staff Recommendation. No issues have been raised with respect to the CPA's budget. Staff recommends approval as budgeted.

8770 Electricity Oversight Board

The Electricity Oversight Board (EOB) is part of the regulatory oversight structure that was established by the legislation restructuring California's electricity industry in 1996. The board is charged with ensuring the reliability of the electricity transmission system and in the power market.

The budget proposes total expenditures of $3.7 million (special funds), an increase of $4,000 (0.1 percent) from the current-year budget.

Table 2
California Electricity Oversight Board
Sources of Funding
(dollars in thousands)

	2001-02	2002-03	2003-04	Change Amount	Change Percent
General Fund	$36	$231	$0	(231)	-100%
Public Utilities Reimb. Acct.	1,975	3,003	3,226	223	7.4%
Energy Resources Program Acct.	335	471	483	14	3.0%
Reimbursements	31	0	0	0	0%
Totals	$2,377	$3,705	$3,709	$4	0.1%

Workload and FERC Reports. Last year, the Legislature spent considerable time examining the role of the EOB and justifications for its current funding level. The subcommittee was critical of its near $4 million budget despite losing both of the board's original purposes of overseeing the now-defunct Power Exchange and overseeing the Independent System Operator. Due to FERC rulings and recent legislation, the board's remaining functions are to investigate wholesale electricity market activities and participate in FERC proceedings as one of the state's representatives.

The reports document in detail the dockets and legal efforts the board has before FERC as well as the market monitoring and oversight activities to support those efforts. While the report recognizes that its statutory duties are now limited to representation before FERC and energy market monitoring, the workload measures seem to justify the Board's $3.7 million proposed budget.

Elimination of the Board of the EOB. SB 920 (Bowen), currently pending in the Senate, proposes elimination of the statutes authorizing and governing the Electricity Oversight Board. It is unclear at this time if the bill would move forward. The primary issue is whether the EOB staff should be directed by a Board, which is appointed by the Governor, or whether a director answerable to the Governor is sufficient. While the role of the Board of the EOB is questionable after the elimination of its oversight abilities of the Power Exchange and the Independent System Operator, the work of the EOB staff in market monitoring and FERC representation is necessary and valuable to the state. If the Board of the EOB is eliminated, it would result in minimal budgetary savings of approximately $500 per year.

Issues

Coordinating State Agency Representation Before the Federal Energy Regulatory Commission

Background. Since deregulation of the state's electricity industry, the state's representation before the Federal Energy Regulatory Commission (FERC) has increased significantly. The state has several agencies that represent or have represented various state perspectives on state energy-related issues before FERC. These agencies include the Electricity Oversight Board (EOB), the California Energy Commission (CEC), the Department of Justice (DOJ), the California Public Utilities Commission (CPUC), and the Department of Water Resources, California Energy Resources Scheduling (CERS) Division.

The 1998 Budget Act required the EOB and the PUC to adopt a memorandum of understanding (MOU) to coordinate efforts with regard to FERC representation. The directive specified a number of areas in which one or the other agency should be the designated lead based on the core purview of each agency.

Last year, the Legislature, through supplemental report language, directed various state agencies to submit to the Legislature reports on the perspectives they represent before FERC. The Legislative Analyst's Office was directed to review these reports and present its findings and recommendations.

LAO Recommendation. The LAO found that a number of state agencies represent similar state energy-related issues before the FERC, but that informal efforts have been made to coordinate FERC representation resulting in reasonable coordination given the current organization of the state's energy agencies.

The LAO believes the best way to organize and coordinate the state's representation at FERC in future years will be dictated by decisions made regarding the structure of the electricity market, as changes to the market structure could result in changes to how the state's energy agencies are organized. For the interim, the LAO recommends the adoption of Budget Bill language and supplemental report language to direct the agencies representing state energy-related issues before FERC to establish a MOU to ensure continued coordination of their activities. The LAO also recommends designating a lead agency to coordinate the MOU among the agencies.

Staff Recommendation. In the LAO's findings and recommendations on this issue, it was stated that reasonable coordination between the agencies regarding FERC representation was identified and that FERC representation was reasonable given the current organization of the state's energy agencies. Staff believes that sufficient coordination occurs between the various agencies representing state interests before FERC and that the various agencies do represent different perspectives not to the state's detriment.

8660 Public Utilities Commission

The commission regulates privately owned utilities, such as gas, electric, telephone and railroad interests. It regulates some passenger and household goods carriers. The commission's primary objective is ensure adequate facilities and services for the public at equitable and reasonable rates.

Among the major adjustments to the 2003-04 budget, the commission proposes:

- $608,000 (special funds) for minor capital outlay.
- $223,000 (special funds) and three personnel-years for implementation of AB 2638 for the regulation of water corporations.
- $8 million (special funds) for consultant services associated with the PG&E bankruptcy.
- Make permanent limited-term positions. In 2001, the Legislature placed ORA's telecommunications staff on a two-year limited-term basis. The commission requests that these staff be made permanent.

Report on the Commission's Audit Program. The Legislature required the PUC to submit reports detailing performance on its completed audits and a plan for managing its audit backlog. The commission reported the following results of its recent audits:

- <u>General Rate Cases and Affiliate Audits</u>. Effectiveness is measured by the net change in rates as determined by the auditing activities. Last year, the commission completed two audits. One audit cost $100,000 and reduced the rate base by $2.6 million. Assuming a total fee rate on the base of 4.08 percent, the audit reduced revenues by $106,000. The second audit cost $3.2 million. It identified refunds of $350 million and $2 billion in under-reported income. Assuming a fee base of 4.08 percent, the audit generated revenue of $81.6 million to net against the refunds. When the refunds are combined with the additional revenue, the second audit reduced revenues by $268 million.
- <u>Telephone Number Conservation</u>. Effectiveness is measured by the number of unused telephone numbers returned to the California Number pool. The commission completed two audits at a cost of just over $7,000 each. One audit returned 1.6 million numbers. The other returned 100,000.
- <u>Public Purpose Program/User Fee Audits</u>. Effectiveness is measured by the net collection of user fee revenues. The commission completed five audits at a cost of just over $900,000. It generated net revenue of about $64 million, for a benefit cost ratio of about 70:1.

The commission plans to conduct up to five general rate audits, "various" telephone number cases, 23 audit public purpose audits and eight water utility audits.

Implementation of AB 140. AB 140 (Strom-Martin -- Chapter 903, Statutes of 2001) established a grant program to develop rural telecommunications infrastructure. The commission may distribute the grants to community-based groups, provided that the community is low-income and lacks telecommunications service. The commission has identified 35 rural communities which might qualify for a grant.

The budget requests an appropriation from the High Cost Fund-A for $79,000 for a new staff person (limited-term) and $10 million for grants. Last year, the commission made a similar request; however, the Legislature rejected this proposal as it was unlikely that the program would be developed in time to award grants in the fiscal year.

The commission plans to establish the application process over the rest of the year. If the commission follows the timeline identified, it could begin awarding grants next Spring.

Rate Changes in the Commission's Telephone Surcharge Rates. The PUC will adjust the telephone surcharge rates in 2003. The rate for the High Cost Fund-A will change on May 1, the rate for High Cost Fund-B will change on July 1, and the Universal Lifeline rate will change in September. Table 2 displays the rates effective on July 1, 2002 and the likely new rate for 2003, as reported by commission staff.

Table 2
Comparison of PUC Surcharges
Rates Effective July 1, 2002 and New 2003 Rate

	2002	New Rate in 2003
High Cost A	0.36	0.21
High Cost B	2.20	2.70
Universal Lifeline	1.45	1.20

Issues

Office of Economic Development

Background: The Commission, on its own initiative, has recently started the establishment of an Office of Economic Development (OED) within the PUC. The Commission did not submit a Budget Change Proposal for this office and has stated that this initiative for the budget year will be accomplished within existing resources.

Staff Recommendation: With the lack of a Budget Change Proposal and the lack of statutes enacted by the Legislature to provide direction for this office, staff cannot properly evaluate the proposed office. Staff recommends that staff ask the following questions:

1. What will be the exact role of the OED within the PUC?

2. Under what authority was the OED created?

3. If this office is being developed within existing resources, what current resources are being redirected for its development? What future resources will be needed for this office?

Staff also recommends that the Subcommittee direct staff, the LAO, and the PUC to develop trailer bill language authorizing OED and stating its purpose by the open issues hearing.

3360 Energy Resources Conservation and Development Commission

The commission, commonly referred to as the California Energy Commission (CEC), develops and implements California's energy policy. Specifically, the CEC's responsibilities include:

- Forecasting statewide energy supply and demand;
- Siting and licensing power plants;
- Promoting energy efficiency and conservation programs;
- Conducting energy-related research and development; and
- Developing renewable energy resources and alternative energy technologies.

The Commission's mission is to assess, advocate, and act through public-private partnerships to improve energy systems that promote a strong economy and a healthy environment.

Budget Proposal. As displayed in Table 1, the budget proposes expenditures of about $356 million, an increase of $31 million (9 percent) relative to the current year.

The commission also expects to receive loan repayments totaling $5.7 million, up from $4.8 million in the current year.

Table 1
California Energy Commission
Expenditures by Program
(dollars in thousands)

				Change	
	2001-02	**2002-03**	**2003-04**	**Amount**	**Percent**
Regulatory and Planning	$28,001	$28,360	$25,918	-$2,442	-9%
Energy Resources Conservation	111,306	42,605	56,395	13,790	32%
Development	187,584	254,100	273,415	19,315	8%
Totals	$326,892	$325,065	$355,728	$30,663	9%

As displayed in Table 2, only special funds and reimbursements fund the commission. Specifically:

- Special funds account for about $349 million (98 percent) of the commission's budget.

- Reimbursements make up approximately $6 million (2 percent) of the total.

- The commission does not receive any General Fund revenue.

Table 2
California Energy Commission
Funding Sources
(dollars in thousands)

	Amount	Percent
General Fund	$0	0%
Renewable Resource Trust Fund	183,456	52%
Public Interest Research, Development & Demo. Program Fund	66,982	19%
Energy Resources Programs Account	46,388	13%
Other Special Funds/Loan Repayments	52,657	15%
Reimbursements	6,245	2%
Total	$355,728	100%

The California Power Authority will issue a $28 million revenue bond that will raise money for the State Energy Conservation and Assistance Account, a revolving fund that loans money to local public entities for energy efficiency projects. The bond will accelerate the availability of loan repayments in response to increased demand for energy conservation loans by local governments. The revenue is secured by existing loan receivables.

Issues

Energy Resources Programs Account

The Energy Resources Programs Account (ERPA) funds most of the commission's basic programs, general operations and staffing. Revenues from this account derive from a two-tenths of a mill ($0.0002) per kilowatt-hour charge on the consumption of electricity by California ratepayers. The commission expects ERPA revenues to total about $46 million, an increase of 2 percent over the current year. CEC's expenditures from this account also total approximately $46 million and represent slightly more than 13 percent of the commission's total proposed budget.

The commission anticipates maintaining a reserve of more than $3 million in its budget. This dollar amount represents over 7 percent of CEC's projected level of ERPA-funded spending. *The commission indicates* that a 5 percent reserve is sufficient to cover any unanticipated costs that may arise over the course of the year.

ERPA Surcharge Increase. Thanks to enacting legislation from last year (AB 3009, Committee on Budget), the commission may set the ERPA surcharge rate at a public meeting each November at a rate not to exceed $0.0003 per kilowatt-hour. In November 2002, the commission set the ERPA surcharge at its current level, $0.0002 per kilowatt-hour, and does not plan to adjust the surcharge at its November 2003 public meeting. If, before November 2003, unanticipated expenses arise or projected energy demand in the budget year decreases substantially, whether because of an increase in energy prices or otherwise, then the commission may decide to increase the surcharge at its November 2003 meeting, to take effect on January 1, 2004.

Assuming the same 2 percent increase in demand that the Governor's Budget projected (the commission says that that demand assumption is still reasonable), an increase in the ERPA surcharge of $0.0001 per kilowatt-hour would generate $23 million over the course of a full year. Because of the quarterly payment schedule, only revenue from the first quarter of 2004 would be transmitted from investor-owned utilities to the commission before the end of the 2003-04 budget year.

Staff recommendation. Staff recommends transferring $5.75 million from ERPA to the General Fund. An increase in the ERPA surcharge at CEC's November 2003 meeting could backfill this transfer. In the 2004-05 budget year, the committee may wish to consider transferring the additional revenue from the increase in the ERPA surcharge to the General Fund or encourage the commission to provide rebates to ratepayers. The commission may reduce the surcharge to $0.0002 per kilowatt-hour at a public meeting in November 2004.

Power Plant Siting Program

Background. The CEC is responsible for siting large power plants throughout the state and currently funds its siting activities entirely with resources from ERPA. The budget proposes expenditures of approximately $17.4 million for the siting program, a reduction of $3.7 million from the current year, representing an 18 percent decrease. This reduction primarily reflects the sunset of 40 limited-term positions initially allocated to the siting program in 2000-01 to expedite the siting of power plants during the energy crisis. The commission anticipates 8-10 new applications for power plants in the budget year.

2002 Budget Act Supplemental Report. In response to supplemental report requirements in the 2002 Budget Act, the commission examined alternative fee structures for imposing fees on (1) developers seeking approval to site power plants and (2) generators for ongoing costs associated with compliance.

CEC recommends *that the existing funding structure for the siting program (ERPA support) remain in place* to maintain the public's perception that the commission is objective and independent. Furthermore, because of the uncertainty and volatility associated with the submittal of applications, reliance on siting fee revenue to fund the program could lead to budgetary imbalances, jeopardizing the commission's ability to process applications in a timely manner. CEC admits, however, that power plant developers are direct beneficiaries of the siting program's work and as such, could reasonably be expected to pay for part of the cost of the program.

Despite its recommendation to maintain the status quo, CEC evaluated four different siting fee structures based on several different criteria, as directed by the supplemental report language:

- *Developer pays 100 percent of actual costs:* The developer would pay for the actual hours charged by CEC staff for siting a power plant.
- *Developer pays 100 percent of average review costs:* The developer would pay 100 percent of CEC's average cost to review a power plant application (currently around $665,000).
- *Developer pays 50 percent of actual review costs:* The developer would pay 50 percent of actual costs for application review.
- *Developer pays flat fee based on size:* The developer would pay $100,000, plus $250 per MW of generating capacity up to $350,000 (about half of the average cost to review an application).

The commission found the flat fee structure, based on size to be the most favorable alternative, primarily because of its ease of administration. In addition, CEC suggested imposing an additional $15,000 annual fee on power plant owners to cover ongoing compliance activities. This dollar amount represents the average annual cost to monitor power plant compliance.

LAO Recommendation. LAO recommends enacting fee legislation to establish a siting application fee on power plant developers and annual compliance fees on generators. LAO maintains that these fees are appropriate for several reasons:

- In the deregulated energy market structure, *investor-owned utilities (IOUs) do not necessarily sell power to California ratepayers* who fund the siting program through ERPA.
- *Fees are not likely to deter investment* in new plants because the marginal cost of the fee is small.
- *Other states assess siting fees.* In most states, developer/generator fees, combined with another revenue source, support their siting programs.
- *California's state and local programs typically assess fees on parties they permit and regulate.*

Staff Recommendation. Staff recommends enacting legislation to institute a flat fee based on size, plus an additional annual fee on power plant owners to cover ongoing compliance activities, as proposed by the commission and supported by LAO.

Renewables Resources: Customer Credit Program

Background. In 1997, SB 90 (Sher -- Chapter 905, Statutes of 1997) established the Renewable Resource Trust Fund and directed the commission to distribute funds, collected from a ratepayer surcharge, through several distinct accounts and subaccounts, including the Customer Credit Subaccount. This subaccount funded the customer credit program, which was designed to reduce the premium customers paid for renewable energy, thereby stimulating market demand. From 1998-2001, SB 90 allocated approximately $76 million to the program.

In September 2000, the Legislature authorized the commission to continue to collect $135 million annually from ratepayers, to fund the Renewable Energy Program for the following five years. SB 1038 (Sher -- Chapter 515, Statutes of 2002) earmarked 10 percent of that amount ($13.5 million) annually, for the customer credit program. That statute also required the commission to report to the Legislature by March 31, 2003 on "how to most effectively utilize the funds for customer credits, including whether, and under what conditions, the program should be continued."

The commission's report listed three factors that have called into question the effectiveness of and need for the customer credit program. These factors include:

- The volatility and murky outlook of California's direct access energy market;
- The adoption of the Renewable Portfolio Standard (RPS), which requires renewable energy to comprise 20 percent of the energy portfolio by the end of 2017 and represents an obligation to procure renewable energy, replacing the choice to do so, encouraged by the customer credit program; and
- The growing trend of trading renewable energy attributes.

CEC Recommendation. First, the commission recommends discontinuing the customer credit program due to the uncertainty of the direct access market and customer choice. Further, the intent of the program's funding would be to foster a growing market for renewable power above and beyond RPS requirements. Second, CEC recommends paying credits for renewable energy purchased between January 1, 2002 and April 1, 2003 with $6.7 million in remaining SB 90 funds. Last, the commission suggests reallocating its annual funding as follows:

- 10 percent ($1.35 million) to the Renewable Resources Consumer Education Account specifically to support scoping, design and development efforts for the required RPS/Renewable Energy Program generation tracking, verification and accounting system, consistent with SB 1078 and SB 1038 requirements.
- 45 percent ($6.08 million) to the Emerging Renewable Resources Account.
- 45 percent ($6.08 million) to the New Renewable Resources Account.

Statute prohibits the commission from reallocating funds to the Existing Renewable Resources Account.

Staff Recommendation. Staff recommends that the committee ask the commission about the reallocation of customer credit program funds and determine whether or not CEC should reallocate these funds in a different manner to maximize their effectiveness.

California Climate Action Registry

Background. Chapter 1018, Statutes of 2000, established the California Climate Action Registry as a public benefit nonprofit corporation that records and registers voluntary greenhouse gas emission reductions made by California entities after 1990 and performs several other related functions. The Registry's statutory responsibilities include: adopting standards for verifying emissions reductions, establishing emissions reduction goals, designing and implementing efficiency improvement plans and maintaining a record of emissions baselines and reductions.

The statute also assigned various related responsibilities to the CEC. Specifically, the law requires the CEC, by July 1, 2003 to recommend to Registry procedure for defining and measuring transportation-based emissions associated with Registry participants' activities, including shipping of products and materials, employee commuting and purchased air travel.

New Statutory Responsibilities For the Registry. Last year, the Legislature passed landmark legislation which required the state Air Resources Board (ARB) to reduce greenhouse gas emissions from vehicular sources and increased the Registry's emission credit responsibilities related to vehicular sources. Chapter 200, Statutes of 2002 (AB 1493), required the registry, in consultation with the state ARB, to adopt procedures and protocols for the reporting and certification of reductions in greenhouse gas emissions from mobile sources for use by the state board in granting the emission reduction credits.

In addition, the Legislature also enacted Chapter 423, Statutes of 2002 (SB 812), which required the registry to develop a forestry protocol for carbon sequestration emissions.

This year, the Registry has written to the subcommittee requesting $200,000 in funding from non-General Fund sources to support several of the ongoing programs of the California Climate Action Registry, stating that "is key to ensuring the continuing work of the Registry." The Registry states that the funding would help implement the legislation referenced above.

Details of the funding request are as follows:

$60,000	Registry software maintenance, upgrading and hosting, to allow ongoing on-line inventory, reporting and certification of greenhouse gas inventories of entities operating in California
$40,000	Development of the forest management and sequestration protocols required in SB 812
$75,000	Ongoing recruitment of potential Registry members to secure a larger cross-section of business sector representation in the Registry.
$25,000	Working with CARB and other relevant agencies to formulate alternative compliance scenarios for implementation of the upcoming automotive greenhouse gas emissions regulation

Staff Recommendation. The subcommittee may wish to direct staff to review the funding request and determine if there are funds available for the request.